



**INTERNATIONAL RESCUE COMMITTEE, INC.**

Financial Statements

September 30, 2007

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
345 Park Avenue  
New York, NY 10154

## **Independent Auditors' Report**

The Board of Directors  
International Rescue Committee, Inc.:

We have audited the accompanying balance sheet of International Rescue Committee, Inc. (IRC) as of September 30, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of IRC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from IRC's 2006 financial statements and, in our report dated January 19, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IRC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Rescue Committee, Inc. as of September 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

February 13, 2008

**INTERNATIONAL RESCUE COMMITTEE, INC.**

Balance Sheet

September 30, 2007

(With comparative financial information as of September 30, 2006)

(Amounts in thousands)

<b>Assets</b>	<b>2007</b>	<b>2006</b>
Cash and cash equivalents (notes 7 and 13)	\$ 28,120	23,139
Grants and contracts receivable (notes 7, 8, and 14)	22,838	13,350
Inventory (note 13)	3,102	3,393
Contributions receivable, net (notes 9 and 13)	20,000	18,793
Loan program receivables	261	152
Other assets, net (note 14)	6,380	5,210
Investments (notes 2, 10, and 13):		
Endowment and emergency funds	79,105	58,203
Split-interest agreements	9,458	8,919
	<u>88,563</u>	<u>67,122</u>
Split-interest agreements – contributions receivable (note 10)	423	580
Property and equipment, net (note 4)	8,483	6,840
Total assets	<u>\$ 178,170</u>	<u>138,579</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses (note 6)	\$ 11,706	8,609
Accrued vacation and severance	3,693	2,571
Program advances (notes 7 and 8)	13,084	12,159
Deferred revenue and other liabilities	974	1,374
Loan program liability	386	269
Annuity liabilities related to split-interest agreements (note 10)	5,726	5,730
Deferred rent obligation (note 5)	5,637	4,502
Total liabilities	<u>41,206</u>	<u>35,214</u>
Commitments and contingencies (notes 5, 6, 8, 16, and 17)		
Net assets:		
Unrestricted (notes 10 and 13):		
Board-designated endowment	49,057	37,521
Undesignated	5,936	4,286
Renewals and replacement fund	673	564
Designated for special-purpose fund	1,712	2,285
Total unrestricted	<u>57,378</u>	<u>44,656</u>
Temporarily restricted (notes 10, 11, and 13):		
Donor contributions	40,786	31,060
Reinvested return on emergency funds	1,811	347
Split-interest agreements	671	931
Total temporarily restricted	<u>43,268</u>	<u>32,338</u>
Permanently restricted (notes 12 and 13):		
Donor endowment and emergency funds	28,646	23,268
Contributions receivable, net	7,672	3,103
Total permanently restricted	<u>36,318</u>	<u>26,371</u>
Total net assets	<u>136,964</u>	<u>103,365</u>
Total liabilities and net assets	<u>\$ 178,170</u>	<u>138,579</u>

See accompanying notes to financial statements.

**INTERNATIONAL RESCUE COMMITTEE, INC.**

Statement of Activities

Year ended September 30, 2007

(With summarized financial information for the year ended September 30, 2006)

(Amounts in thousands)

	2007			2006 Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Operating activities:				
Operating revenues:				
Contributions (notes 11, 14, and 15)	\$ 22,315	33,599	—	55,914
Contributed goods and services	4,749	—	—	4,749
Grants and contracts (notes 7, 11, and 14)	185,630	—	—	185,630
Investment return used for operations (note 3)	2,593	501	—	3,094
Loan administration fees and other income	1,325	—	—	1,325
Release from restrictions (notes 11 and 15)	24,783	(24,783)	—	—
Total operating revenues	<u>241,395</u>	<u>9,317</u>	<u>—</u>	<u>250,712</u>
Operating expenses:				
Program services:				
International relief and assistance programs	161,915	—	—	161,915
Resettlement	37,683	—	—	37,683
Emergency preparedness, technical units, and other	12,380	—	—	12,380
Women's Commission	4,081	—	—	4,081
Total program services	<u>216,059</u>	<u>—</u>	<u>—</u>	<u>216,059</u>
Supporting services:				
Management and general	14,953	—	—	14,953
Fund-raising	8,158	—	—	8,158
Total supporting services	<u>23,111</u>	<u>—</u>	<u>—</u>	<u>23,111</u>
Total operating expenses	<u>239,170</u>	<u>—</u>	<u>—</u>	<u>239,170</u>
Excess of operating revenues over operating expenses	<u>2,225</u>	<u>9,317</u>	<u>—</u>	<u>11,542</u>
Nonoperating activities:				
Bequests and contributions (note 13)	1,987	—	10,047	12,034
Split-interest agreements	(112)	36	—	(76)
Investment return, net (note 3)	9,590	1,621	—	11,211
Expenses related to:				
Split-interest agreements and endowment – fund-raising	(902)	—	—	(902)
Designated special purpose fund	(573)	—	—	(573)
Renewals and replacement fund	(91)	—	—	(91)
Other, net (note 4)	(309)	—	—	(309)
Minimum pension liability adjustment (note 6)	521	—	—	521
Release of obligation	—	242	—	242
Reclassification of restrictions	386	(286)	(100)	—
Total nonoperating activities	<u>10,497</u>	<u>1,613</u>	<u>9,947</u>	<u>22,057</u>
Increase in net assets	<u>12,722</u>	<u>10,930</u>	<u>9,947</u>	<u>33,599</u>
Net assets at beginning of year	<u>44,656</u>	<u>32,338</u>	<u>26,371</u>	<u>103,365</u>
Net assets at end of year	<u>\$ 57,378</u>	<u>43,268</u>	<u>36,318</u>	<u>103,365</u>

See accompanying notes to financial statements.

**INTERNATIONAL RESCUE COMMITTEE, INC.**

Statement of Functional Expenses

Year ended September 30, 2007

(With summarized financial information for the year ended September 30, 2006)

(Amounts in thousands)

	Program services								Supporting services			Total	
	International relief and assistance				Resettlement	Emergency preparedness, technical units, and other	Women's Commission	Total program services	Management and general	Fund-raising	Total supporting services	2007	2006
	Africa	Asia	Balkans, Caucasus, and other programs	Total									
Personnel	\$ 43,040	15,547	4,323	62,910	18,481	8,091	2,144	91,626	9,552	3,478	13,030	104,656	89,260
Professional services	1,428	341	273	2,042	302	541	332	3,217	1,363	1,030	2,393	5,610	5,033
Travel, conferences, and events	5,073	1,283	467	6,823	1,395	1,161	311	9,690	461	498	959	10,649	9,054
Occupancy	3,543	1,229	197	4,969	2,349	1,180	373	8,871	2,061	491	2,552	11,423	10,674
Communications	1,914	527	109	2,550	583	458	300	3,891	506	3,609	4,115	8,006	7,909
Vehicles, equipment, and supplies	10,486	2,728	430	13,644	1,788	180	58	15,670	521	77	598	16,268	15,499
Subgrants	9,133	15,630	824	25,587	474	150	503	26,714	18	—	18	26,732	20,426
Program materials and direct assistance	27,933	9,480	2,609	40,022	10,539	12	18	50,591	6	7	13	50,604	47,934
Donated goods	2,924	88	45	3,057	1,692	—	—	4,749	—	—	—	4,749	3,952
Other	228	66	39	333	180	752	50	1,315	923	110	1,033	2,348	1,883
Total expenses	105,702	46,919	9,316	161,937	37,783	12,525	4,089	216,334	15,411	9,300	24,711	241,045	211,624
Less: Nonoperating expenses, primarily personnel related to split-interest agreements and endowment, and brand promotion	(18)	(2)	(2)	(22)	(100)	(145)	(8)	(275)	(458)	(1,142)	(1,600)	(1,875)	(1,165)
Total operating expenses reported by function in the statement of activities	\$ 105,684	46,917	9,314	161,915	37,683	12,380	4,081	216,059	14,953	8,158	23,111	239,170	210,459
2006 Total	\$ 93,670	41,036	10,967	145,673	31,512	9,263	3,159	189,607	13,414	7,438	20,852		210,459

See accompanying notes to financial statements.

**INTERNATIONAL RESCUE COMMITTEE, INC.**

Statement of Cash Flows

Year ended September 30, 2007

(With comparative financial information for the year ended September 30, 2006)

(Amounts in thousands)

	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Increase in net assets	\$ 33,599	23,707
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,183	823
Net realized and unrealized gains on investments	(12,301)	(2,983)
Loss (gain) on disposal of property and equipment	207	(160)
Change in value of split-interest agreements	492	59
Contributions under split-interest agreements	(463)	(521)
Permanently restricted contributions	(10,047)	(4,334)
Changes in assets and liabilities:		
(Increase) decrease in grants and contracts receivable	(9,488)	1,652
Decrease (increase) in inventory	291	(544)
Decrease (increase) in contributions receivable	3,010	(13,924)
Increase in loan program receivables	(109)	(59)
Increase in other assets	(1,170)	(119)
Increase in accounts payable and accrued expenses	3,671	1,300
Increase in accrued vacation and severance	1,122	640
Increase in program advances	925	2,296
Decrease in deferred revenue and other liabilities	(359)	(457)
Increase in loan program liability	117	116
Increase in deferred rent	1,135	2,350
Net cash provided by operating activities	11,815	9,842
Cash flows from investing activities:		
Purchases of property and equipment	(3,066)	(5,346)
Proceeds from disposal of property and equipment	33	160
(Decrease) increase in accounts payable and accrued expenses – construction-in-progress	(574)	574
Proceeds from sale or redemption of investments	43,184	40,151
Purchases of investments	(52,324)	(40,826)
Net cash used in investing activities	(12,747)	(5,287)
Cash flows from financing activities:		
Permanently restricted contributions	10,047	4,334
Increase in permanently restricted contributions receivable	(4,217)	(1,260)
Proceeds from contributions under split-interest agreements	1,026	1,080
Payments to beneficiaries under split-interest agreements	(902)	(724)
Payments on capital lease	(41)	(32)
Net cash provided by financing activities	5,913	3,398
Net increase in cash and cash equivalents	4,981	7,953
Cash and cash equivalents at beginning of year	23,139	15,186
Cash and cash equivalents at end of year	\$ 28,120	23,139

See accompanying notes to financial statements.

# INTERNATIONAL RESCUE COMMITTEE, INC.

## Notes to Financial Statements

September 30, 2007

(With comparative financial information as of and for the year ended September 30, 2006)

(Amounts in thousands)

### (1) Organization and Summary of Significant Accounting Policies

#### *Organization*

International Rescue Committee, Inc. (IRC) is a private, not-for-profit organization that serves refugees and communities victimized by oppression or violent conflict worldwide. IRC is committed to freedom, human dignity, and self-reliance. This commitment is expressed in emergency relief, protection of human rights, postconflict development, resettlement assistance, and advocacy.

#### *Basis of Accounting*

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, IRC's net assets and changes therein are classified and reported as follows:

- Unrestricted net assets – net assets that are not subject to donor-imposed restrictions, or the donor-imposed restrictions have expired. As reflected in the accompanying financial statements and discussed below, IRC's Board of Directors has designated a portion of the unrestricted net assets for specific purposes.
- Temporarily restricted net assets – net assets that are subject to donor-imposed restrictions that permit IRC to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of IRC.
- Permanently restricted net assets – net assets that are subject to donor-imposed restrictions that they be maintained permanently by IRC and only the income be used as specified by the donor. Certain emergency funds allow temporary use of principal.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by donors or by law.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as release from restrictions in the statement of activities.

#### *Grants and Cooperative Agreements*

Grants and cooperative agreements with Federal, foreign, and local governments and United Nations, European, and other agencies are deemed to be exchange transactions and, accordingly, revenue is recognized when funds are utilized by IRC to carry out the activity stipulated in the grant or cooperative agreement. Accordingly, amounts received but not recognized as revenue are classified in the balance sheet as program advances, and amounts expended but not yet received are classified as grants and contracts receivable.

**INTERNATIONAL RESCUE COMMITTEE, INC.**

Notes to Financial Statements

September 30, 2007

(With comparative financial information as of and for the year ended September 30, 2006)

(Amounts in thousands)

***Contributions***

Contributions, including promises to give (pledges), are reported as revenues in the period received or pledged. Contributions are considered to be unrestricted unless they are received with donor stipulations that limit their use either through purpose or time restrictions. Contributions to be received after one year are discounted using a U.S. Treasury bill rate in effect at the end of the fiscal year in which the pledge was originally made. These rates ranged from 1% to 6% as of September 30, 2007. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fund-raising activity. Bequest income is recorded when the will is declared valid by the probate court and amounts can be reasonably determined.

***Endowment and Emergency Funds***

IRC has an ongoing capital campaign (Freedom Fund), which consists of the following:

***Board-Designated Endowment***

The Board of Directors has established a special fund to provide for the long-term financial stability of IRC and to enhance its ability to respond to extraordinary emergency needs. The purpose of this fund is to provide a mechanism for the Board of Directors to set aside and invest certain funds. Accordingly, the Board of Directors has designated the Leo Cherne Emergency Fund, certain unrestricted bequests, extraordinary gifts (as determined by the Board of Directors), and unrestricted surpluses in operating funds for this purpose.

***Donor Endowment and Emergency Funds***

In further support of the long-term financial stability of the organization, IRC receives donations for which the principal must be permanently maintained. Included in this category are endowment donations and emergency funds that allow IRC to use principal on a temporary basis for emergency response situations and to pre-position itself with commonly used emergency response inventory. Principal used by IRC must be subsequently returned to the fund.

***Contributed Goods and Services***

Contributed goods are recognized as revenue at their estimated fair value at the date of receipt and expensed when used.

Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services are recorded at the fair value of the services provided. Contributed services and promises to contribute services that do not meet the above criteria are not recognized as revenues and are not reported in the financial statements.

**INTERNATIONAL RESCUE COMMITTEE, INC.**

Notes to Financial Statements

September 30, 2007

(With comparative financial information as of and for the year ended September 30, 2006)

(Amounts in thousands)

***Split-Interest Agreements***

IRC is the beneficiary of a number of split-interest agreements with donors. IRC may control donated assets and may share with the donor or the donor's designee income generated from those assets until such time as stated in the agreement, at which time the remaining assets are generally for IRC's unrestricted use.

IRC records the assets of the agreements (at fair value) if the assets are controlled and invested by IRC. IRC records nonoperating contribution revenue at the date the agreement is established after recording a liability for the present value of the estimated future payments expected to be made to the beneficiaries. Adjustments to the annuity liabilities to reflect the amortization of the discount and revaluation of expected future payments to beneficiaries based on changes in actuarial assumptions are made annually and recognized as nonoperating revenue as change in value of split-interest agreements.

In other situations where assets are controlled and invested by an independent third party (primarily pooled income funds), IRC records a receivable and nonoperating contribution revenue for its share of the assets based on the present value of the estimated future distributions expected to be received by IRC over the expected term of the agreement.

The discount rate used in valuing split-interest agreement liabilities as of September 30, 2007 and 2006 ranged from 4% to 10%.

***Functional Expense Allocations***

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function are allocated to components of these services based on allocation factors determined by management.

***Operations***

IRC excludes from operating activities unrestricted and permanently restricted bequests, contributions and expenses related to split-interest agreements and the Freedom Fund, changes in value of split-interest agreements, investment return on split-interest agreements, investment return in the Freedom Fund in excess of or less than the spending rate (see note 3), nonrecurring expenses funded by the designated special-purpose fund and the renewals and replacement fund, the pension liability adjustment and other nonrecurring items. All other revenue and expenses are included in operating activities.

***Cash and Cash Equivalents***

For the purposes of the statement of cash flows, IRC considers highly liquid debt instruments purchased with maturities of three months or less, other than those held as part of the investment portfolio, to be cash equivalents.

**INTERNATIONAL RESCUE COMMITTEE, INC.**

Notes to Financial Statements

September 30, 2007

(With comparative financial information as of and for the year ended September 30, 2006)

(Amounts in thousands)

***Investments***

Investments are stated at fair value based on quoted market prices except for the fair values of limited partnerships and certain mutual funds, which are provided by the general partners and fund managers, respectively, based upon the underlying net assets of the funds. These estimated values are reviewed and evaluated by management for reasonableness. Investments in limited partnerships are generally less liquid than other investments and the reported fair value may differ significantly from the values that would have been reported had a ready market for these securities existed. Included in the investments of the limited partnerships are certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of off-balance-sheet risk, may result in loss due to changes in the market.

***Inventory***

Inventory consists of program materials and emergency response supplies not used as of September 30th. Inventory is recorded at cost upon purchase and deducted from inventory and expensed when used.

***Property and Equipment***

Property and equipment are recorded at cost if purchased, or at fair market value at the date of the gift, if donated, less accumulated depreciation and amortization. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally three to seven years. Amortization of leasehold improvements is provided on the straight-line method over the lesser of their useful lives or the terms of the related lease. Property and equipment acquired with funds received from grants in which the grantor retains a reversionary interest in the assets at the end of the grant period are expensed in the year of acquisition.

***Foreign Currency Translation***

The management of IRC has determined that the functional currency of its foreign offices is the U.S. dollar. Accordingly, current assets and current liabilities are translated using the current exchange rates in effect at the balance sheet date. Noncurrent assets and noncurrent liabilities are translated at historical rates and revenue and expense accounts are translated at the average rate in effect during the year. The resulting translation gain (loss) for 2007 and 2006 of \$341 and \$(80), respectively, is reflected in the statement of activities.

***Tax Status***

The Internal Revenue Service has ruled that, pursuant to Section 501(c)(3) of the Internal Revenue Code (the Code), IRC is exempt from Federal income taxes and is a publicly supported organization, as defined in Section 509(a)(1) of the Code. As a not-for-profit organization, IRC is also exempt from state and local income taxes.

**INTERNATIONAL RESCUE COMMITTEE, INC.**

Notes to Financial Statements

September 30, 2007

(With comparative financial information as of and for the year ended September 30, 2006)

(Amounts in thousands)

*Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Comparative Financial Information*

The statements of activities and functional expenses are presented with prior year summarized comparative totals. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with IRC's 2006 financial statements, from which the comparative totals were derived.

**(2) Investments**

Investments as of September 30, 2007 and 2006 consisted of the following:

	<b>2007</b>		<b>2006</b>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Cash and cash equivalents	\$ 437	437	496	496
Mutual funds:				
Equity funds	19,974	16,773	8,317	6,555
Debt funds	143	147	379	390
Debt securities	19,506	19,662	15,595	16,253
Equity securities	35,293	30,559	31,255	28,703
Limited partnerships	13,210	9,000	11,080	9,000
	<u>\$ 88,563</u>	<u>76,578</u>	<u>67,122</u>	<u>61,397</u>

Mutual funds include \$5,255 and \$3,474 at September 30, 2007 and 2006, respectively, of funds which do not trade publicly and, therefore, do not have published market prices. The underlying investments, however, are principally marketable securities.

Investments at September 30, 2007 and 2006 include \$79,105 and \$58,203, respectively, relating to IRC's Freedom Fund (see note 13) and \$9,458 and \$8,919, respectively, relating to split-interest agreements (see note 10).

IRC has an Investment Committee comprised of members of the Board of Directors, Overseers and other advisors, which is charged with the responsibility of providing fiduciary oversight over IRC's investments. The Investment Committee meets with executive management and external advisors on a quarterly basis to review investment performance, asset allocation, and investment manager performance.

**INTERNATIONAL RESCUE COMMITTEE, INC.**

Notes to Financial Statements

September 30, 2007

(With comparative financial information as of and for the year ended September 30, 2006)

(Amounts in thousands)

**(3) Investment Return**

IRC maintains a spending rate policy on the Freedom Fund invested assets. The spending rate policy was designed to preserve the value of the investment portfolio in real terms and to reduce the impact of market fluctuations on operations. The spending rate used for operations is set at 4.5% of the previous two-year rolling average fair value. In addition to the return on the Freedom Fund invested assets, investment return used for operations includes investment income on working capital cash and short-term investments.

Investment return for the years ended September 30, 2007 and 2006 consisted of the following:

	<b>2007</b>	<b>2006</b>
Interest and dividend income	\$ 2,004	1,839
Net realized gains	6,041	2,438
Net unrealized gains	6,260	545
Total return on investments	14,305	4,822
Less investment return used for operations	(3,094)	(2,622)
Reinvested return on investments	\$ 11,211	2,200

Return on investment is shown net of investment manager fees of \$241 and \$202 at September 30, 2007 and 2006, respectively.

**(4) Property and Equipment**

Property and equipment consisted of the following as of September 30, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Furniture and equipment	\$ 2,675	2,016
Cars, vans, and mobile units	2,190	2,222
Leasehold improvements	8,015	5,425
Construction-in-progress	1	574
Donated art portfolios	73	85
	12,954	10,322
Less accumulated depreciation and amortization	(4,471)	(3,482)
	\$ 8,483	6,840

In July 2007, a steam pipe explosion damaged and/or destroyed various furniture and equipment and leasehold improvements at IRC's New York City location. The event resulted in a loss on disposal of property and equipment of \$240 and other expenses of \$219, which is recorded as a nonoperating expense in the statement of activities. The nonoperating expense is net of insurance recoveries of \$150. IRC expects additional insurance recoveries in fiscal 2008.

**INTERNATIONAL RESCUE COMMITTEE, INC.**

Notes to Financial Statements

September 30, 2007

(With comparative financial information as of and for the year ended September 30, 2006)

(Amounts in thousands)

**(5) Lease Agreements**

IRC leases several office facilities and equipment under operating leases expiring at various dates through 2021. Rental expense is recognized on a straight-line basis, rather than in accordance with base payment schedules, for purposes of recognizing a constant annual rental expense. The difference between straight-lining the rental charge and actual payments is reported as deferred rent in the balance sheet. The deferred rent obligation is expected to grow as payments are less than expenses until fiscal 2012. Future rental payments are subject to escalation for IRC's proportionate share of increases in certain building operating expenses. Lease agreements for facilities in overseas locations are generally for periods of one year or less.

The following is a schedule, by fiscal year, of the minimum future rentals on leases with expiration dates greater than one year as of September 30, 2007:

Year ending September 30:	
2008	\$ 4,073
2009	4,031
2010	3,818
2011	3,728
2012	3,104
Thereafter	<u>34,177</u>
Total minimum future payments	\$ <u><u>52,931</u></u>

Rent expense for the years ended September 30, 2007 and 2006 was approximately \$7,371 and \$7,049, respectively.

**(6) Retirement Plans**

IRC has two retirement plans that cover personnel – a noncontributory defined benefit pension plan covering all employees with one year of service and a defined contribution plan that provides a match for employees who elect to participate in IRC's 403(b) Savings Plan.

Defined Benefit Pension Plan

Benefits are based upon years of service and average compensation at retirement. Participants are vested after three years of service. IRC makes contributions to the defined benefit pension plan based on actuarial calculations performed annually. These contributions are irrevocable and may be used only for the benefit of participants. In addition, IRC may adjust the scale of retirement benefits to maintain the actuarial soundness of the plan subject to certain limitations. Any surplus that remains after the satisfaction of all liabilities under the plan shall be allocated, as defined, to the participants. Under no conditions shall any part of the surplus revert to IRC.

**INTERNATIONAL RESCUE COMMITTEE, INC.**

Notes to Financial Statements

September 30, 2007

(With comparative financial information as of and for the year ended September 30, 2006)

(Amounts in thousands)

On September 20, 2006, an amendment to IRC's defined benefit plan was approved by the Board of Directors. The amendment terminated the defined benefit plan and froze benefit accruals for all employees as of December 31, 2006. The amendment and related remeasurement of the benefit obligation at September 30, 2006 resulted in a reduction of the projected benefit obligation and an increase to the funded status, as of September 30, 2006, of \$4,545. The amendment and related remeasurement resulted in no curtailment expense.

During fiscal 2007, a portion of the plan was settled related to the current pensioners and terminated vested participants prior to the year 2000. This settlement resulted in recognition due to settlement of \$2,917.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS No. 158 requires an employer to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation, in the balance sheet. There was no impact on IRC's financial statements due to the adoption of SFAS No. 158.

The following tables set forth the financial information about the defined benefit plan as of September 30, 2007 and 2006:

***Funded Status***

	<b>2007</b>	<b>2006</b>
Projected benefit obligation	\$ 19,465	24,615
Effect of curtailment	—	(4,545)
Effect of settlement	(2,917)	—
Projected benefit obligation after curtailment and settlement	16,548	20,070
Fair value of plan assets	13,261	17,945
Funded status	(3,287)	(2,125)
Unrecognized net loss	—	568
Pension liability	\$ (3,287)	(1,557)

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Notes to Financial Statements

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(With comparative financial information as of and for the year ended September 30, 2006)

(Amounts in thousands)

***Balance Sheet***

	<u>2007</u>	<u>2006</u>
Funded status	\$ (3,287)	(2,125)
Unrecognized net asset	(464)	(608)
Unrecognized loss	11,206	14,067
Effect of curtailment	—	(4,545)
Effect of settlement	<u>(2,917)</u>	<u>—</u>
Unrecognized loss after curtailment and settlement	<u>8,289</u>	<u>9,522</u>
Prepaid pension cost before pension liability	4,538	6,789
Accumulated pension liability adjustments	<u>(7,825)</u>	<u>(8,346)</u>
Pension liability (included in accounts payable and accrued expenses)	<u>\$ (3,287)</u>	<u>(1,557)</u>

***Benefit Obligation Weighted Average Assumptions as of September 30***

	<u>2007</u>	<u>2006</u>
Discount rate	4.69%	5.00%
Rate of compensation increase	—	—

***Benefit Cost Weighted Average Assumptions for the year ended September 30***

	<u>2007</u>	<u>2006</u>
Discount rate	5.00%	5.25%
Expected return on plan assets	5.00	8.00
Rate of compensation increase	—	4.50

***Other Information***

Benefit cost – operating	\$ 3,764	1,544
Minimum pension liability adjustment – nonoperating	(521)	2,367
Effect of adoption of SFAS No. 158	—	NA
Contributions to and benefit payments from the plan:		
Employer cash contribution	1,513	2,687
Benefits paid	1,344	1,557

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In the statement of activities, the benefit cost is reported in operating expenses, allocated among all functional categories, and the pension liability adjustment is reported as a nonoperating charge.

***Plan Assets***

The following table presents information with respect to pension plan assets:

<u>Asset category</u>	<u>Target asset allocation</u>	<u>Actual allocation at September 30</u>	
		<u>2007</u>	<u>2006</u>
Equity securities	55 – 65%	0%	65%
Debt securities	35 – 45	100	35

In order to satisfy the short-term requirement of the terminated defined benefit plan, in December 2006, IRC sold all of the pension plan investments and invested the proceeds in short-term debt securities, which produced an expected rate of return of 5%.

***Future Benefit Payments***

The estimated benefit payment upon settlement in 2008 is \$16,548. IRC is expected to contribute \$3,287 to the defined benefit plan in 2008.

**Defined Contribution Pension Plan**

IRC also makes contributions to a defined contribution pension plan based on a prescribed matching schedule of employee contributions. Basic employee contributions up to 6% of compensation are eligible for a matching contribution by IRC. Matching contributions are deposited in the plan each payroll period based on the following formula:

- 100% of the basic employee contribution up to the first 3% of compensation plus
- 50% of the basic employee contribution up to the next 3% of compensation.

IRC enhanced the existing defined contribution plan, whereby the IRC provides base contributions in addition to the existing matching contributions program to IRC's 403(b) Savings Plan. The enhanced defined contribution plan allows for immediate eligibility while retaining the three-year vesting requirement from the defined benefit plan for the base contributions.

Pension expense relating to the defined contribution plan for 2007 and 2006 was \$2,506 and \$992, respectively.

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**(7) Significant Funders and Concentrations of Credit Risk**

Grants and contracts revenues consisted of the following for the years ended September 30, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
U.S. Federal and local government agencies	\$ 100,319	93,313
European agencies	48,110	35,540
United Nations agencies	18,212	17,928
Other agencies	6,511	6,301
Indirect cost recovery	12,478	11,395
	\$ 185,630	164,477

During the year ended September 30, 2007, approximately 21% each (21% and 23%, respectively, during fiscal year 2006), of revenues from grants and contracts were received from the U.S. Department of State (Bureau of Population, Refugees, and Migration) and the U.S. Agency for International Development, including the Office of Foreign Disaster Assistance, respectively. The operation of IRC's programs at present levels is dependent upon continued funding from these organizations and from United Nations and European agencies.

Financial instruments that potentially subject IRC to concentrations of credit risk consist principally of cash and cash equivalents and grants and contracts receivable. Cash and cash equivalents include program advances and, as of September 30, 2007 and 2006, approximately 27% and 35%, respectively, is deposited in banks in foreign locations. At September 30, 2007 and 2006, approximately 25% and 30%, respectively, of grants and contracts receivable, are due from the European Union, including Europeaid and the European Commission Humanitarian Aid Office through IRC's foreign affiliates.

**(8) Grants and Contracts Receivable and Program Advances**

Grants and contracts receivable consisted of the following as of September 30, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Federal and local government agencies	\$ 6,499	2,077
United Nations agencies	2,070	1,554
European agencies and other	14,269	9,719
	\$ 22,838	13,350

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Program advances consisted of the following as of the September 30, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Federal and local government agencies	\$ 141	1,241
United Nations agencies	2,058	2,064
European agencies and other	10,885	8,854
	\$ 13,084	12,159

In accordance with the terms of certain government contracts, the records of IRC are subject to audit for varying periods after the date of final payment of the contracts. IRC is liable for any disallowed costs. In the opinion of management, adjustments that might result from such audits would not have a significant effect on IRC's financial position or changes in net assets.

**(9) Contributions Receivable**

Contributions receivable consisted of the following as of September 30, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Due within one year	\$ 8,035	5,262
Due within two to five years	14,222	12,525
Due beyond five years	15	2,750
	22,272	20,537
Less discount	(2,247)	(1,719)
Less allowance for uncollectible contributions	(25)	(25)
Contributions receivable, net	\$ 20,000	18,793

	<b>2007</b>	<b>2006</b>
Freedom Fund contributions receivable	\$ 7,185	2,968
Temporarily restricted contributions receivable	12,815	15,825
Contributions receivable, net	\$ 20,000	18,793

At September 30, 2007 and 2006, gross contributions receivable includes \$16.9 million from two donors and \$15 million from one donor, respectively.

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Notes to Financial Statements

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(Amounts in thousands)

**(10) Split-Interest Agreements**

Split-interest agreement assets, liabilities, and net assets are categorized on the balance sheets as of September 30, 2007 and 2006 as follows:

	<b>2007</b>	<b>2006</b>
Split-interest agreements – contributions receivable	\$ 423	580
Investments	9,458	8,919
Total assets	\$ 9,881	9,499
Annuity liabilities related to split-interest agreements	\$ 5,726	5,730
Unrestricted net assets – split-interest agreements	3,484	2,838
Temporarily restricted net assets – split-interest agreements	671	931
Total liabilities and net assets	\$ 9,881	9,499

**(11) Temporarily Restricted Net Assets**

Temporarily restricted net assets as of September 30, 2007 and 2006 are available subject to time and purpose restrictions as follows:

	<b>2007</b>	<b>2006</b>
Time restrictions:		
Split-interest agreements	\$ 671	931
General purpose	1,066	821
Purpose restrictions:		
Balkans, Caucasus, and other programs	10,251	—
Asian programs	4,041	7,109
African programs	18,079	17,108
Total international relief and assistance programs	32,371	24,217
Resettlement	2,039	2,226
Emergency preparedness, technical units, and other	3,399	1,526
Women’s Commission	2,084	2,314
Supporting services	1,638	303
	\$ 43,268	32,338

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Program restrictions for the years ended September 30, 2007 and 2006 were satisfied by incurring expenses for the restricted purposes specified by the donors as follows:

	<u>2007</u>	<u>2006</u>
Balkans, Caucasus, and other programs	\$ 731	529
Asian programs	3,427	7,858
African programs	<u>10,113</u>	<u>3,853</u>
Total international relief and assistance programs	14,271	12,240
Resettlement	3,077	3,183
Emergency preparedness, technical units, and other programs	1,991	1,523
Women's Commission	2,009	1,787
Supporting services	<u>3,435</u>	<u>2,432</u>
	<u>\$ 24,783</u>	<u>21,165</u>

During 2007 and 2006, total revenue for the Women's Commission was \$4,076 and \$3,662, respectively. This is reported as operating revenue, primarily as temporarily restricted contributions and grant and contract revenue.

**(12) Permanently Restricted Net Assets**

The income earned on permanently restricted net assets as of September 30, 2007 and 2006 is available for the following purposes:

	<u>2007</u>	<u>2006</u>
Emergency response	\$ 7,304	6,050
Reproductive health	10,001	3,000
Children's programs	294	100
General purposes	<u>18,719</u>	<u>17,221</u>
	<u>\$ 36,318</u>	<u>26,371</u>

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**(13) Freedom Fund**

IRC's Freedom Fund comprises the board-designated endowment, donor endowment, and emergency funds assets and net assets. As of September 30, 2007 and 2006, the Fund is categorized on the balance sheets as follows:

	<b>2007</b>	<b>2006</b>
Assets:		
Cash and cash equivalents	\$ 852	3,023
Inventory – emergency response materials	44	45
Contributions receivable	7,185	2,968
Investments	79,105	58,203
Total	\$ 87,186	64,239
Net assets:		
Unrestricted board-designated endowment	\$ 49,057	37,521
Temporarily restricted – reinvested return on emergency funds	1,811	347
Permanently restricted	36,318	26,371
Total	\$ 87,186	64,239

Freedom Fund contribution revenue consisted of:

	<b>2007</b>	<b>2006</b>
Cash contributions	\$ 3,907	3,957
Pledges and bequests receivable, net	8,127	2,780
Total	\$ 12,034	6,737

## INTERNATIONAL RESCUE COMMITTEE, INC.

### Notes to Financial Statements

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#### **(14) Foreign Affiliates**

IRC is currently affiliated with two separately incorporated organizations, International Rescue Committee, U.K. and International Rescue Committee, Belgium. Revenue provided by these affiliates, primarily from European Commission Humanitarian Aid Office and Department for International Development, was \$33,312 and \$30,088 for fiscal years 2007 and 2006, respectively, and is included in grants and contracts and contributions in the statement of activities. Net receivables due from these affiliates, consisting primarily of grants and contracts receivables, were \$3,141 and \$2,351 as of September 30, 2007 and 2006, respectively.

IRC operates in Banda Aceh, Indonesia through the Consortium for Assistance and Recovery towards Development in Indonesia (CARDI), a partnership organization that includes the Norwegian Refugee Council, Stichting Vluchteling, and IRC. Cash held on IRC's behalf at CARDI, consisting mainly of program advances, is included in other assets, and was \$409 and \$263 as of September 30, 2007 and 2006, respectively.

#### **(15) Fiscal Sponsorship**

In April 2007, IRC entered into a fiscal sponsorship agreement with Not On Our Watch, Inc. (NOOW), a newly formed not-for-profit corporation applying to become a tax-exempt organization under Section 501(c)(3) of the Code. Under the agreement, amounts received by IRC have been and will continue to be expended, principally as subgrants in cooperation with NOOW. Included in temporarily restricted contribution revenue and release from restrictions is \$7,967 and \$3,499, respectively, related to the agreement. In January 2008, NOOW received its tax-exempt status and terminated its fiscal sponsorship agreement with IRC. Subsequently, IRC granted \$2,267 to NOOW.

#### **(16) Line of Credit**

In May 2006, IRC obtained a \$2,500 unsecured line of credit from a financial institution bearing interest at a rate of LIBOR plus 90 basis points per annum. This line was increased to \$5,000 in March 2007. There are no fees associated with the unused portion of the line of credit. Of the \$5,000, \$2,070 is utilized for a European Union grant that requires a standby letter of credit to be obtained for the period of the grant. There were no amounts outstanding under such line during the year or at September 30, 2007 and 2006.

#### **(17) Contingencies**

IRC is contingently liable under certain claims and lawsuits, many of which are covered in whole or in part by insurance. In management's opinion, none of these claims and lawsuits will have a material adverse effect on the financial position or changes in net assets of IRC.